Testimony of Martin J. Sullivan
Before the Financial Crisis Inquiry Commission

June 30, 2010

Chairman Angelides, Vice-Chairman Thomas, and Members of the Commission, my name is Martin Sullivan. I was President and Chief Executive Officer of AIG from March of 2005 through June of 2008. I thank the Commission for the invitation to appear, and I hope that my testimony will assist the Commission in its efforts to better understand the causes of the financial crisis.

The Commission's task is an important one. We have experienced in the past few years the most severe economic crisis since the Great Depression, the causes of which are complex, interrelated, and global. Understanding these events is critical to the ongoing policy debate over financial reform and the health of the worldwide markets, and I appreciate the hard work that is required of the Commission as it undertakes this daunting, but crucial project.

The Commission has asked me to address several topics related to AIG, including the historical growth of particular portfolios within AIG's Financial Products division, risk management practices and controls, and various strategic decisions made within certain business units at AIG. My career at AIG spanned almost four decades; by providing an overview of my roles and responsibilities, I hope I can shed light on each of these topics.

When I joined AIG in 1971, I worked in the accounts department of AIU (London) Limited, which was the U.K-based non-life subsidiary of AIG. Over the next three decades, I took on increasing responsibility for the property underwriting side of the business, first as Property Manager for AIG's Irish non-life subsidiary, and then Regional Property

Manager in London. Ultimately I became CEO of AIG (UK) Limited, and regional President of the non-life business for the U.K./Ireland region. In 1996 I moved to New York, where I have resided ever since. I became Chief Operating Officer and later President of AIU, AIG's international non-life business. I remained in that role until 2002, when I became co-Chief Operating Officer of AIG. As co-COO, my primary oversight responsibilities continued to be in the non-life area of AIG's insurance business.

In March 2005, I was asked by the Board to become President and CEO of AIG. At the time I assumed this position, the company was in crisis. AIG's outside auditors had informed the Board that they could not rely on the certifications of the former CEO and CFO. We thus had to advise the rating agencies, analysts, employees and investors that we would be delaying the filing of the 2004 10-K. We then undertook an internal review of AIG's books and records. This review was overseen by the Audit Committee of AIG's Board of Directors, spanned AIG's major business units globally, and involved more than thirty multi-disciplinary teams reviewing the company's global operations. At this time, I was meeting regularly with our key state and federal regulators and working with senior management to strengthen and enhance AIG's overall financial reporting and internal control environment.

AIG was segmented into four lines of operation: Life, Non-life, Financial Services, and Investments. You have asked me to discuss AIG Financial Products, which was one of the businesses within Financial Services. AIG's Financial Services subsidiaries engaged in diversified financial products and services, including aircraft and equipment leasing, consumer finance and insurance premium financing, and capital markets transactions. AIG FP was within the capital markets area, and participated in the derivatives and financial transactions dealer markets conducting interest rate, currency, equity, commodity, energy and credit transactions.

During most of my tenure, Mr. Cassano was the CEO of AIG FP. He reported to the head of Financial Services, Mr. Dooley. Mr. Dooley, in turn, reported to me.

As CEO, I received routine high-level reports and participated in regular meetings, including weekly meetings with senior officers and managers from each business segment of AIG — to address issues relating to production, loss, human resources, legal, or other business matters — and monthly meetings with a larger group that included divisional managers, to share information across the organization and discuss business opportunities and issues.

You have also asked me to address risk management practices at AIG. The four components of Enterprise Risk Management at AIG were credit, market, operational, and — later — liquidity. The senior managers who headed each of these units reported to the Chief Risk Officer, Mr. Lewis, who reported to the CFO until early 2008 and then to me. Mr. Lewis provided regular reports to both the Finance Committee and the Audit Committee, and the full Board had access to him as well. Many of the business units also had their own risk control units; thus, risk was managed both at the parent and line-of-business level. The risk controls in place at AIG were designed to ensure that all information was shared across business lines and that senior risk managers approved all strategic decisions, but each business unit then made decisions based on its overall strategy and in light of all relevant business factors. And because of the events that had occurred in March 2005, risk management was a priority for the Board and for me. Although strengthening our risk management practices was an ongoing effort, when I look back at my tenure I believe that AIG's risk management practices were well-designed, well-staffed, and well-funded.

Finally, you have asked me to discuss the events of 2007 and 2008. Enterprise Risk Management, Corporate Finance, Internal Audit, Legal and AIG's independent auditors devoted significant time and effort in 2007 and 2008 to analyzing and disclosing in detail the Company's potential exposure, across the board in all its businesses, to the deteriorating U.S. residential housing market. AIG repeatedly revised and corrected estimates as it developed better information. In February of 2008, AIG was advised by its independent auditors that they believed a material weakness existed in its internal control over financial reporting and oversight relating to the fair value valuation (sometimes referred to as the mark-to-market valuation) of AIG FP's super senior credit default swap portfolio. Shortly thereafter AIG issued a Form 8-K describing this issue and revising its valuation of the portfolio. After issuing its Form 8-K, AIG also undertook an assessment of its valuation controls and procedures, and instituted managerial changes within AIG FP.

Throughout my tenure as CEO, my goal was to communicate as openly and directly as possible within the organization, with investors, and with regulators. I appreciate this opportunity to share my views, and I look forward to your questions.